United Nations World Economic & Social Survey 1994

UN REPORT FORESEES STEADY GROWTH IN DEVELOPED COUNTRIES

Developing countries consolidate position in world economy, but unemployment a global problem

"Policy-makers in the world's major economies should remain focused on the economic fundamentals and not be pressured into precipitate action to stabilize markets when they meet in Naples at the Group of Seven summit", said Jean-Claude Milleron, Under-Secretary-General of the United Nations and head of the UN Department of Economic and Social Information and Policy Analysis (DESIPA). "The fundamentals are encouraging", according to Mr. Milleron, "and the most effective way to reach calm waters is to stay the course".

Introducing the UN's *World Economic and Social Survey 1994**, released 5 July, Mr. Milleron backed its projection that world output will rise in 1994 and 1995 by the fastest rates since 1989, as long as the macroeconomic policy stances of the second quarter are maintained.

Growth is returning to the developed market economies, albeit on a modest scale, according to the *Survey*, and economic expansion in developing countries overall will continue at the rapid rate of the past two years (see table). "Incomes of a large proportion of the population of the developing countries, still very low, are growing faster in recent years than considered likely even a decade ago", the UN report observes.

But it also finds sharp variations between countries and regions. Population growth in Africa will again outstrip the projected rise in output. In the economies in transition in eastern Europe, growth will be just over 2 per cent in 1994 and 3 per cent in 1995, while the outlook for most of the countries of the former Soviet Union is of falling output again in 1994 and 1995. Among the developed countries, the United States economy remains the greatest source of optimism, while Japan and western Europe are expected to emerge slowly from recession, with 1994 growth in the range of 1 to 2 per cent.

Prospects for the world economy clearly improved in early 1994, but a number of acute problems remain. The *Survey* points to the alarming levels of unemployment in Europe (see table page 4) and the economies in transition, as well as most developing countries; the political and ethnic unrest and military conflicts which are inflicting misery and wreaking havoc with economic and social development; and the one-fifth of the world's population that lives in poverty.

Growth of the world economy (1988-1995)
(Annual percentage change)

	1988	1989	1990	1991	1992	1993	1994*	1995*
World output	4.5	3.2	1.6	0.3	0.8	1.1	2.5	3.0
Developed market economies	4.5	3.3	2.4	0.7	1.6	1.0	2.5	2.75
Economies in transition	4.5	2.1	-6.2	-8.8	-15.2	-8.6	-6.0	0.0
Developing countries	4.5	3.5	3.0	3.4	4.9	5.2	5.0	5.0
World trade	7.3	8.0	5.6	4.6	5.5	2.7	6.0	6.5
Growth of world per capita income	2.8	1.5	0.0	-1.4	-0.9	-0.6	0.6	1.3

Source: UN/DESIPA. *Figures for 1994 and 1995 are forecasts based on Project LINK.

* Formerly published annually by the UN under the title *World Economic Survey*. The title of the 1994 report reflects increased attention to social issues and further integration of social and economic analysis.

The following are some of the *Survey*'s key policy observations:

- Overcautious monetary policy in any major economy could damage the chances of recovery.
- Success of economic and political reform in Africa will require substantial long-term external support.
- Economic growth is a necessary but not sufficient condition for reducing unemployment in many countries; policies to stimulate investment need to be complemented by measures to address labour market barriers and rigidities.
- Completion of the Uruguay Round was a major step towards strengthening the multilateral trading system, but the agreements reached must now be upheld in letter and spirit.

Overall, the *Survey* judges that the groundwork has been laid for higher global economic growth in the second half of the 1990s than in the first. The most important factors are fiscal consolidation and financial adjustment in the developed market economies, progress underway in the economies in transition, and economic reform and growing internal dynamism in a large number of developing countries, as well as the projected beneficial effects of the completion of the Uruguay Round.

Transition economies at a turning point

The euphoria that accompanied the start of the transition from command to market economies in Europe and central Asia has been succeeded by disillusionment concerning the widespread impoverishment, unemployment, the loss of personal security and a rapid differentiation in incomes and wealth. But institutional changes encouraging market forces have galvanized the private sector in these countries, and economic contraction could end in many cases by next year, according to the *Survey*.

There is a danger, however, in carrying privatization too far too fast in these countries. The state cannot abandon all the inefficient enterprises it owns because the political and social costs of mass bankruptcy would be unacceptable. In any event, in the absence of fully operational market mechanisms and appropriate prices, it is hard at this time to assess which firms are viable. State ownership and support therefore needs to be continued in some cases, the *Survey* concludes.

Developing countries: stronger growth

The *Survey* projects 5 per cent growth in the developing countries in 1994, maintaining the pace established in 1993. As has been the case since the 1980s, high growth is concentrated in South and East Asia and in China, which achieved, respectively, growth rates of 5.4 and 13 per cent in 1993. Latin America and the Caribbean, with 3.3 per cent growth in 1993, also experienced marked improvement over the previous two years and the average of the 1980s. In Africa, 1.6 per cent growth in 1993 was an improvement over drought-stricken 1992, but meant a continued decline in per capita income, a situation forecast to continue this year even though growth is expected to increase to 2.5 per cent. Growth in West Asia slowed to 3.5 per cent in 1993, after the sharp recovery in 1992 from the devastation of the Gulf war.

Developing countries in the aggregate have been growing much faster than the developed market economies in the 1990s. The main factors contributing to such growth are: large domestic markets in some of the fastest growing countries, notably China; increase in trade among developing countries, especially in Asia, but also in Latin America; strong investment in infrastructure, in particular in Asian countries exporting manufactures; high participation of Asian developing countries in the exports that suffered relatively less during the economic downturn, such as electronic machinery and equipment; low international interest rates and a high net inflow of private capital into several developing countries.

World exports will grow 6 per cent in volume in 1994, up from a 2.7 per cent increase in 1993, the *Survey* projects. Growth of global trade is increasingly attributable to the developing countries, especially those in Asia. The strongest impetus for trade among the developed countries came from the United States, with a 13 per cent increase in imports in 1993. By contrast, western European imports were reported to have declined by 4.5 per cent.

Transfers swing to developing countries

The rapid escalation in the value of international transactions in equities, bonds and other securities was the dominant financial development of 1993. Accompanying this trend was the accelerating transfer of resources to developing countries (see table page 3), reversing the net out-

flow of resources from these countries during most of the 1980s and as late as 1990. New transfers were concentrated in Latin America and Asia. Africa did not share in the boom in private sector investment, and the net flow since 1990 of between $7 billion and $10 billion a year to the sub-Saharan region, excluding Nigeria and South Africa, has been achieved largely through development assistance loans and grants.

In South Africa, 1994 marked the end of apartheid, the holding of democratic elections and the beginning of renewed foreign inflows. Investment on a large scale is needed to complete the transition successfully, the *Survey* reports.

The report also argues that the world's financial markets may have dismissed the problem of developing-country debt too quickly. Renegotiation in 1994 of the largest commercial bank debt in Latin America, that of Brazil, further eased concerns. But total developing country debt is over $1.6 trilllion, the $305 billion still owed by Africa clearly exceeds its debt-carrying capacity and Latin America is not out of the woods yet.

Debts owed to governmental creditors, which have been mainly treated under the Paris Club, have not been significantly reduced for most countries, and only limited debt forgiveness has been made available to even the poorest countries undergoing rigorous adjustment programmes. Among official creditors there is a widely-held view, although not a consensus, that the best terms being accorded to heavily-indebted, low-income countries are inadequate to pull them out from under their debt overhang.

The two final chapters of the Survey *were prepared to assist in global preparations for two important United Nations meetings: the International Conference on Population and Development, to be held this September in Cairo, and the World Summit for Social Development, taking place in Copenhagen in 1995. Following are summaries of these chapters.*

Global unemployment

The high level of unemployment in most developed economies is mainly due to increased labour supply stemming largely from the greater participation of women in the work force: the growth of employment has been as high in recent decades — despite lower economic growth rates — as in the early post-war period.

Labour shortages have occurred in a few rapidly growing, newly industrializing economies, but in most developing countries high levels of structural unemployment persist. The economies in transition also are experiencing high levels of unemployment, with less skilled and younger workers particularly vulnerable. Many older workers are situated in enterprises in which the state is effectively acting as employer of last resort. A further complicating factor is the weakening of the substantial social safety net previously provided by state agencies or through regular employment.

Policies that stimulate investment, with its ability to add both to demand and employment-generating productive capacity, are needed to reduce unemployment in all three groups of countries. However, constraints on expansionary policies and the persistence of structural unemployment militate in favour of policies oriented

International Resource Transfers

Net transfer of financial resources to groups of developing countries, 1983-1993
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Africa	7.4	3.2	-7.3	1.9	-3.2	3.7	0.8	-10.6	-6.9	-4.5	-0.2
of which: Sub-Saharan Africa	5.5	2.4	2.8	5.5	5.5	7.1	5.6	7.2	7.8	9.8	8.6
Latin America and the Caribbean	-25.7	-34.9	-30.2	-11.8	-17.9	-21.4	-28.5	-25.8	-7.2	12.2	18.9
West Asia	30.8	13.5	20.2	26.9	18.3	19.2	10.1	-2.0	41.9	32.2	21.0
Other Asia	6.0	-4.1	4.1	-11.6	-30.1	-17.2	-10.1	-3.0	-2.6	-1.4	6.7
of which: China	-3.0	-0.4	12.3	7.1	-0.5	3.6	4.7	-10.9	-12.0	-5.8	9.7
Four exporters of manufactures	-4.6	9.1	-12.1	-23.1	-30.3	-25.4	-21.1	-10.4	-5.3	-5.4	-9.1
All developing countries	16.2	-23.0	-15.0	5.2	-33.7	-20.3	-27.7	-31.3	32.9	43.7	54.0

Source: UN/DESIPA, based on data of IMF, national and other sources

towards specific labour-market barriers and rigidities. In addition, rapid technological change, while beneficial in the long run and stimulative of trade and investment, can disrupt employment patterns. Policies need to take into account such trade-offs while imparting greater flexibility and transparency to labour-market institutions, especially in those economies where such institutions are underdeveloped, the *Survey* recommends.

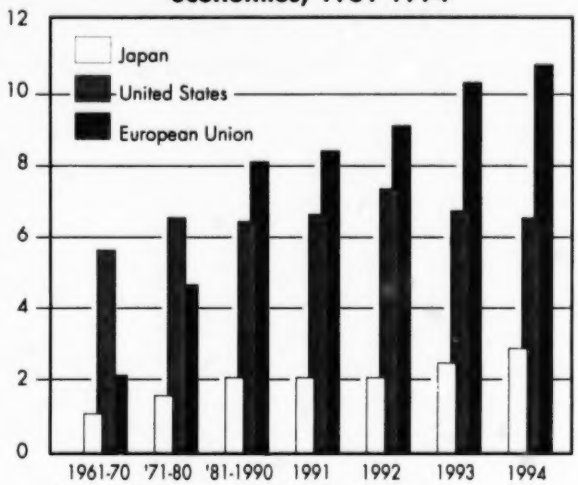
Population and sustainable development

In the 35-year period 1990 to 2025, in all regions of the world, the population is expected to grow more slowly than in the 35-year period 1955 to 1990. In the developed countries and in some developing countries, the slowdown in population growth will lead to a major increase in the proportion of those over 65 in the population. This will have implications for the type of investments to be made, and also for government finances, as provisions will have to be made for the needs of the elderly. In the end, however, it is healthy economic growth that can assure adequate retirement incomes.

Technology and productivity increases have led to lower food and raw material prices in real terms — a far cry from the earlier spectre of shortages. These trends are likely to continue. However, it is important that prices reflect the true scarcity of limited resources, such as fish or water, and also the costs of repairing environmental damage incurred by production.

Over the next 35 years, it is not the total number of people in the world, but rather their production and consumption patterns, that will determine the level of environmental degradation. This is especially the case as most of the world's present environmental degradation is caused by the developed countries, where population growth is stagnant. Only over a period of 100 years or more is growth in the size of developing country population expected to become a significant factor in determining levels of global pollution, and even then technological factors will have greater impact.

Unemployment in leading developed economies, 1961-1994



Source: UN/DESIPA, based on national and international statistics.

There is little reason to believe in a Malthusian-type trap, in which population growth consistently runs ahead of people's ability to sustain themselves. The crossover from wasteful and polluting patterns to those fostering sustainable development will be a key factor in the transition to the next century.

World Economic and Social Survey 1994, *published by the United Nations Department of Economic and Social Information and Policy Analysis. Document E/1994/65 in Arabic, Chinese, English, French, Russian and Spanish or Sales No. 94.II.C.1 in English, French and Spanish, available for $55.00 from United Nations Publications, Two UN Plaza, Room DC2-853, New York, NY 10017, USA, or Palais des Nations, CH-1211, Geneva, Switzerland.*

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